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## City of Longmont Retail Snapshot

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## Summary

Longmont enjoys a broad and healthy retail environment in most categories of retail. With a market size of nearly 100,000 people, Longmont has been able to provide a stable environment for not only convenience/neighborhood retail but also mid-range retailers.

The marketplace for convenience/neighborhood retail shows that there are very few gaps within the trade area for basic grocery needs. Missing from the marketplace is a larger offering of "alternative" grocery options. Longmont's market is of the size and demographic profile to support a larger "alternative" grocer. Timing may be all that is affecting that grocer from entering the market place.

Mid-range retail has a very strong presence in Longmont with the majority of the high-profile retailers in that category having located stores in the marketplace. The few "missing" retailers from this category could be part of the Longmont marketplace with some added emphasis which would get those retailers refocused on the Longmont market. Not part of the Denver metropolitan area, retailers can become myopic about the region and not think about communities outside of the metro area. The redevelopment of Twin Peaks could be that reason that those "missing" retailers refocus on the marketplace.

For Longmont, the changes in the retail industry from the recession are most notable in the super-regional / mall category. The retraction in the marketplace of the department store anchors have left numerous small market malls in decline. Anchor and non-anchor retailers who operate from the super-regional perspective no longer look at small markets as viable marketplace opportunities - expectations that retailers in this genre will once again view Longmont are unrealistic. This category of retail has chosen to serve the Longmont market from areas around Longmont - even if those markets seem "out of trade" to Longmont, the viewpoint of the retailer is that Longmont will travel to fill those shopping needs. Longmont's population base would need to significantly increase in size to support super-regional retail on its own merits.



## Neighborhood Grocery

Chaos may be the best description of the current grocery industry. Grocery has turned into a highly competitive arena with a multitude of new grocery retailers making their presence felt. The days of doing nearly all your grocery shopping weekly at the same supermarket are fading into the past.

With "club" stores offering bulk groceries and discount prices, supercenters for combining grocery with non-grocery purchases, specialty stores for natural and gourmet choices and quick pickup options for basic grocery and snacks - a local shopper could visit several stores in a week long time span.

Some industry analysts estimate that less than half of grocery dollars spent will be in traditional grocery stores.

Those changes in the industry have forced the long-time conventional grocers to re-evaluate how they do business - or in some cases, like Albertsons, to reduce their store chain and operate in fewer markets.

Add into the mix the rising commodity costs which are translating to higher food prices throughout and the grocery industry is certainly in a bit of flux.

The largest US retailer of groceries is Walmart - they are the #1 US grocer by a large margin.

## Grocer Recap

**King Soopers** has made the transition to larger stores. Their new store formats are 123,000 square feet with a combination of food and non-food related items. As they expand into this new store size, customers can expect to see a broader selection of kitchen related items, casual living merchandise and specialty products. An opportunity to expand to the new larger format in Longmont will likely be considered by Kings as they expand further with this concept.

**Safeway** had just completed conversion of the majority of their stores to a "lifestyle" format just prior to the downturn in the market in 2008. The "lifestyle" format focuses on more gourmet, natural and organic offerings with a more modern look overall. Safeway remains a grocery staple in Longmont with 3 stores - all well positioned in the market place.

**Albertsons** has remained in the market with a reduced store count. They have closed a number of lower performing stores in all markets they operate in as evidenced in Longmont..

**Sprouts** is a new entrants into the grocery store genre. At 25,000 square feet, they focus on "fresh" items such as produce and meat. Termed a "indoor farmer's market" they are attractive for their reasonable prices and good quality perishables. Opening soon in Longmont, this store should be well received by Longmont residents.

**Vitamin Cottage/Natural Grocers** is a regional player with stores throughout the region. Their commitment to healthy and safe food options puts them in competition with Sunflower/Sprouts and Whole Foods. With smaller stores, they do not have the "store power" that their competitors have but their affordable prices and true natural and organic offerings bring them a loyal following.

**Save-A-Lot** is a wholly owned subsidiary of SUPERVALUE. Save-A-Lot is a 1,280 store chain within the SUPERVALUE organization (who operates stores under several names) specializing in discount groceries. Self-proclaimed as the "nation's leading extreme value grocery store, their store network spans from Maine to California. Save-A-Lot's key markets are located in the Midwest, east of the Mississippi, along the eastern seaboard. Save-A-Lot has 6 stores in the Denver metropolitan area and stores in Colorado Springs, Pueblo, Greeley and Longmont.

**Whole Foods** does not quite fit into the traditional category for grocery nor are they the "farmer's market" presentation that is associated with Sprouts. Whole Foods is categorized as "the" store for organic and natural foods and products. Longmont seems poised to be able to attract a grocer of this caliber.

**Walmart** is poised to bring its neighborhood market grocery concept (to be called Walmart Market) to the Colorado marketplace. Presently, they have almost 200 stores in this category - none yet in Colorado. This new store concept provides an avenue to provide growth and a way to enter into urban locations where a super center does not work. Walmart is the nations' largest grocery and generates more than half of its revenue from grocery sales. There are no plans at this point in time to bring this concept to Longmont.

**Target** seems to be moving away from the full fledged grocery offerings we are accustomed to here in Colorado. Target seems to favor a concept known as "PFresh" which includes pre-packaged produce, meat and bakery goods - a significantly smaller offering than what we have in the Target Supercenter stores.

**Specialty Grocers** are those smaller chains and independents that market towards specific sectors of an area. These types of grocery stores are more common today as we experience broader demographics and a need to offer stores that are culturally a better match than their conventional competition.



## Mid-Range Retail

Mid-range refers to the trade area associated with certain retailers. Generally named "junior anchors" due to their smaller store sizes in comparison to "anchor" type retailers, these retailers seek trade areas of 5-7 miles in metropolitan marketplaces. In comparison, super-regional retail looks for trade areas 10 miles or larger.

Junior anchors can range in size from 15,000 square feet to 50,000 square feet - their characterization as a junior anchor is less about store size and more about the type of retailer they are.

Mid-range retail is generally comprised of specialty retailers that "specialize" in goods within a specific range such as hardware, books or electronics. Coined "category killers" because of their ability to maintain such a competitive advantage over other competition that it is almost impossible to operate profitably within that industry.

General merchandise retailers such as Walmart and Target also fit within this category of mid-range retail and are considered "anchors" versus "junior anchors".

Junior box retail shares characteristics between retailers even though the "type" of retail is not the same -

- 5-7 Mile Trade Areas (Metropolitan)
- High Profile -Interstate Locations
- Co-Tenancy With Other Junior Anchor Retailers
- Co-Tenancy With General Merchandise Retailers



There is strong synergy between the junior anchors and co-tenancy is usually a mandatory component of site location decisions.

**There are a number of trends affecting retailers who rely on mid-range regional trade areas.....**

**Trade Areas** Impacts from the downturn in the economy affected how retailers evaluated markets outside of a metropolitan area. At the height of the economy, retailers started placing stores in smaller markets with population thresholds at 50,000. Since the downturn, these retailers have now returned to more conservative thresholds of 75,000 to 100,000 folks.

**E-Commerce** The introduction of multiple platforms for e-commerce has certainly had an impact on the retail world. Comfort and confidence using these new forms of retailing are growing with consumers. The "Echo Boomers" or "Generation Y" who have been using technology as long as they have been around has produced a large shopping segment which are quite comfortable with internet shopping. Approximately 87% of US internet users over the age of 14 or 178.5 million people will browse or research products online in a year. Of that group, 83% will make an internet purchase. (Knowledge @ Wharton's).

**Self-Cannibalization** So named "category killers" because they "kill" all local competition, these retailers succeeded in saturating marketplaces and have now reached the point where their main competition is themselves. With their success in specific categories, they have come into the sight of mass-market merchandisers such as Walmart, Target, Costco, Amazon, etc who are looking to add to their business.

**Precision Shopping** Busy lifestyles have resulted in less time dedicated to shopping. Smaller format stores are becoming more popular for those customers interested in "precision" shopping. The trend seems to be "consumers shopping with a mission" and less time looking around for an item.

## Mid-Range Retailer Recap - Longmont

List represents "common" retailers in this category that operate in Colorado.

Retailer	Yes	No
Bed Bath & Beyond	x	
Dick's Sports	x	
Sports Authority	x	
Big 5	x	
REI		x
Office Max	x	
Office Depot	x	
Staples	x	
Ross Dress For Less	x	
Marshall's / TJ Maxx	x	
Kohl's	x	
JCPenney	x	
Old Navy		x
Dress Barn		x
Rack Room		x
Men's Wearhouse		x
PetsMart	x	
Petco	x	
Home Depot	x	
Lowe's	x	
Best Buy	x	
Hancock Fabrics	x	
Jo-Ann Fabric		x
Hobby Lobby	x	
Michael's	x	
DSW Shoes	x	
Famous Footwear	x	
Off-Broadway Shoes		x
Toys / BabiesR Us		x
Home Goods (TJ Maxx)		x
Cost Plus		x
Target	x	
Walmart	x	



## Summary

In evaluating the list of mid-range retailers operating in Colorado - of the 34 listed, 28 are considered primary retailers in this category. The others are somewhat "specialty" retailers that fit within this category but do so few stores in a market, their presence is limited.

Of the 28 primary mid-range retailers - 9 are not represented in Longmont.

As Twin Peaks Mall moves toward redevelopment - there could be a desire by retailers in this category to locate within the marketplace. New store concepts and/or an opportunity to "better" their location could make the mall redevelopment attractive.



## Super-Regional Retail

Super -regional refers to specifically to "mall" projects/developments. Typically thought of as a fully enclosed shopping area, the concept was first developed in the United States in the late 50's and 60's. Today, the largest enclosed mall ever is the South China Mall in Dongguan, China and is 9,600,000 square feet (*Wikipedia*).

Around 2000, the retail development world started experimenting with the conventional mall approach by developing "lifestyle" centers that combined the traditional retail functions of a shopping mall with leisure amenities in an outdoor format. Considered the "incarnation of the traditional mall" for a period of time, "lifestyle" centers were the "darling" of retail development with numerous projects in planning and development.

As the recession unfolded, regional malls - rather than being pushed to the brink, weathered the storm better than any of the new upstart lifestyle centers. The very things that made malls seem so outdated - their size, enclosed environments, dependence on anchors, proved to be powerful assets instead. Over the course of the recession, foot traffic fell at lifestyle centers causing retailers to not meet sales projections and thereby close stores. Most of those retailers have now come back to the mall as their preferred type of real estate. (*Retail Traffic, May 2011*)

Typical trade areas for super-regional retail is 15-20 miles and can accommodate 800,000 to 1,000,000 square feet or more. Successful projects have 2-3 "mall type" anchors such as department stores Macy's, Dillards and JCPenney. Variety and fashion apparel serve as the dominant retail genres for super-regional retail.

Outlet is a type of shopping mall which specializes in "value" merchandise relative to the specific retailer. Many of the retailers are typical "mall" retailers who manufacture "value" merchandise for their outlet sister store (i.e. Coach, Nike, Ann Taylor, Bose). Location of outlet malls is specific to existing super-regional centers, retailers need to be a certain distance away from their "standard" merchandise stores, not wanting to compete with themselves based on "value". These centers are typically not anchored and are being developed in a strip configuration.

There are a number of trends affecting retailers who rely on super-regional trade areas.....

**Enclosed Malls** The trend seems to be shifting back to traditional enclosed malls with traditional mall retailers expanding their occupancy in malls and newer concepts emerging in this area of retail. The recession has affected the viability of lower grade malls and the market can expect that there will be fewer regional malls than exist today (i.e. Westminster Mall, Greeley Mall, Foothill Mall, Twin Peaks). Top-tier malls seem to have escaped the challenge of alternative centers and are enjoying once again prominence in the markets they operate in.

**Outlet** seems poised for great expansion with some estimating that 100 additional outlet malls could be added throughout the US in the next 10 years. Tanger, Taubman, AWE-Talisman, CBL have all started building and buying outlet centers in the last 12-15 months. Decades ago, outlet centers primarily were rundown shopping centers in small towns that sold retailer's excess inventory or admittedly flawed merchandise at a discount. Now, the format has evolved to include outlet centers in major cities and to include national retailers selling "value" merchandise sometimes specifically manufactured for the outlet store.

**E-Commerce** The introduction of multiple platforms for e-commerce has certainly had an impact on the retail world. Comfort and confidence using these new forms of retailing are growing with consumers. The "Echo Boomers" or "Generation Y" who have been using technology as long as they have been around has produced a large shopping segment which is quite comfortable with internet shopping. Approximately 87% of US internet users over the age of 14 or 178.5 million people will browse or research products online. Of that group, 83% will make an internet purchase. Knowledge @ Wharton's.

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**Regional Mall / Lifestyle** Twin Peaks is the first of the smaller market malls to fully fail in the state. Twin Peaks "sister" malls in Greeley and Fort Collins are following in the same footsteps. The factors that affected Twin Peaks, dwindling mall anchor opportunities and mid-range retail locating elsewhere in the market plague these malls as well. Towns the size of Longmont, Greeley and Fort Collins are no longer attractive to super-regional retail opportunities.

New construction of regional shopping malls is non-existent and the horizon for that to change seems to be very far off. Development focus for super-regional retail is centered on redevelopment efforts for those centers that are positioned in high-density metropolitan areas.

The majority of soft good retailers (clothing and textile goods) are part of the super-regional retail mix requiring large trade areas similar to the department store co-anchors they desire to draw off of.

The redevelopment of Twin Peaks is almost certainly going to be in the direction of mid-range retailers. The possibility exists that a few small-scale super-regional retailers could become a part of that redevelopment but chances are not high.

**Outlet** will most likely be seeking new Colorado opportunities - those opportunities will be centered in the metropolitan area and not in the small markets outside of Denver.





## Downtown Retail

### Recruitment - National Retailers

Limitations of a "Downtown" opportunity such as Longmont will decrease the interest from national retailers. Lack of an identifiable retail anchor (co-tenancy), parking limitations and the perception of limited accessibility/visibility will all equate as high risk factors for national retailers who can easily grow their store base with conventional opportunities elsewhere.

Taking the steps to manage the Downtown as a single retail entity may improve the odds of attracting a small scale mainstream retailer (broad scale advertising, backstage support, etc.).

## Independent Retailers

Independent retailers by definition are businesses that are privately owned and generally thought of as single-store operations. Not being constrained by corporate standards, they can be the source of what is "new and different" and can tend towards the innovative side of retailing.

Many times these types of retailers are undercapitalized and are without the benefit of resources available to national retailers. Becoming successful over an extended period of time is often a challenge for these retailers.

Success as an independent retailer is largely based on their ability to rapidly adapt to a changing consumer base, uniqueness, interaction with customers creating customer loyalty and effective marketing.

### How do you find independent retailers?

Due to all the factors that make them independent retailers - there is no mainstream resource for identifying them as prospects.

While much is written about how to attract customers to a Downtown - nothing is written about the characteristics of independent retailers or how to prospect for them. There is no proven method that will deliver these "one of kind" retailers to your doorstep.

The general consensus is that the support of Downtown businesses largely comes from employees working in Downtown and residents living in or near Downtown. It stands to reason that a retailer opportunity will be conceived from that same base.

Contrary to conventional retail development - Downtowns may be the one place where you have to "build it first and they will come". Creating a vibrant opportunity where a retail idea can be tried and fostered seems to be unique to a Downtown opportunity.

An interesting statistic from Austin, Texas shows the patience that is required when growing a retail base in a Downtown environment.....

Austin, Texas began retail recruiting in 2005 and since then has had 700 leads which turned into 289 "qualified" leads which turned into 20 signed deals (7%).  
(cited by "Downtown works" March 2009).

Although recruiting new independent retailers may be a bit of an enigma - the DDA can enhance the odds of a prospect turning into a real opportunity by taking steps in how the area is managed. Stability of the "opportunity" eliminates risk.

Steps that the DDA can take are -

- Provide a centralized point of contact and coordination for retail information pertaining to Downtown.
- Provide consistent interaction with the existing retailers and advocacy in maintaining the well being of those retailers.
- Provide that aspect of real estate which is devoted to leasing, managing, marketing and overall maintenance of the Downtown.
- Retail recruitment that focuses on creative ideas and opportunities.

These are the concepts that have been applied to first tier shopping centers for years. Modifying those concepts to apply to the Downtown will certainly show the DDA to be an effective member of the Downtown "landscape" and help to ensure its continued vibrancy.

### **Thematic Retail**

Retail that is unified around a central theme is not commonplace in the general retail arena. Certainly entertainment districts, antique rows and restaurant parks have seen the benefit of co-tenanting together in certain environments. Integrating a specific theme into the existing mixed use environment of the Downtown will be "pioneering" to a certain degree.

A "themed" concept will certainly increase the customer draw outside the normal trade area. Any opportunity that allows you to increase customers will only bring positive benefits to the Downtown both in attraction of new retailers and expanded opportunities to promote.



## A different way to look at the Downtown.....

**Shopping Center:** *A group of retail and other commercial establishments that is planned, developed, owned and managed by a single property, with on-site parking provided. The center's size and orientation are generally determined by the market characteristics of the trade area served by the center. The three main physical configurations of shopping centers are malls, open-air centers, and hybrid centers. (ICSC Shopping Center Definitions)*

**Mixed Use:** *Consists of well-integrated entertainment, office, hotel, residential, recreation, sports, cultural venues, and/or other uses that mutually support a substantial retail component. Often, mixed use projects feature residential units or office suites above street-level retail stores. (ICSC Shopping Center Definition)*

The trend has been by retailers and developers to not consider "Downtown" commercial from the same perspective as a "shopping center". Fractured ownership which sometimes results in a less than cohesive approach to the entire area along with the appearance of non-traditional elements (namely parking) dissuades mainstream retailers from looking at Downtown opportunities.

In fact, in looking at the definition of a shopping center - the argument should be made that approaching Downtown retail as a "shopping center" is appropriate. Especially, when further evaluated as a "mixed use" center - approaching the concept of retail within a Downtown from a shopping center mentality makes sense.

Being able to present the Downtown as a single mixed use entity to retailers may impact the pre-conceived opinions of mainstream retailers and expose them to positive aspects with the Downtown that they may have dismissed.

Asset management is the "bedrock" of success in the retail center world. Multi-tenant shopping centers have oversight from a single owner/management company. The asset manager must balance the needs/wants/desires of multiple tenants to ensure that the overall center functions well in serving all the interests.

Applying this methodology to a Downtown requires a little more creativity, but the main aspects of the "asset management" criteria can still apply.

Placing the DDA in the role of "asset manager" allows for oversight from one organization that keeps the objectives and goals of the Downtown in focus at all times. Although there may be multiple organizations that support the Downtown, the DDA must be the "master organization".

Resistance to thinking about the Downtown as a single mixed use entity may be tough to overcome with both retailers and owner/organizations, but several steps can be made that will help bridge that thought process.

By implementing simple pro-active steps the DDA/City can become a relevant partner with the retail in the Downtown.

- Provide a centralized point of contact and coordination for retail information pertaining
- to Downtown.
- Provide consistent interaction with the existing retailers and advocacy in maintaining the well
- being of those retailers.
- Provide that aspect of real estate which is devoted to leasing, managing, marketing and overall
- maintenance of the Downtown.
- Retail recruitment that focuses on creative ideas and opportunities.

The ideas and concepts outlined have been applied to first tier centers for years. Modifying those concepts to apply to the Downtown will certainly show the DDA/City to be an effective member of the Downtown "landscape" and help to ensure its continued vibrancy